

EXAMINATION REPORT
OF
AIX SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
AIX SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, reading "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 22 day of February, 2021

TABLE OF CONTENTS

SCOPE OF EXAMINATION..... 1

SUMMARY OF SIGNIFICANT FINDINGS 3

COMPANY HISTORY 3

CAPITALIZATION 3

DIVIDENDS 3

MANAGEMENT AND CONTROL 4

DIRECTORS 4

OFFICERS..... 4

CORPORATE RECORDS..... 5

INSURANCE HOLDING COMPANY SYSTEM 5

AGREEMENTS WITH AFFILIATES 7

TERRITORY AND PLAN OF OPERATION 8

REINSURANCE 9

FINANCIAL STATEMENTS..... 9

STATEMENT OF ASSETS AND LIABILITIES 10

STATEMENT OF INCOME 12

RECONCILIATION OF CAPITAL AND SURPLUS 13

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE
EXAMINATION..... 14**

COMMENTS ON FINANCIAL STATEMENT ITEMS..... 14

SUBSEQUENT EVENTS..... 14

SUMMARY OF RECOMMENDATIONS..... 14

February 12, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.026, dated March 3, 2019, an examination has been made of the affairs, financial condition and management of

AIX SPECIALTY INSURANCE COMPANY

hereinafter referred to as the Company or AIX and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. 19801. The examination was conducted offsite. The administrative office of the Company is located at 440 Lincoln Street, Worcester, Massachusetts. 01653. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of AIX. The last examination was conducted as of December 31, 2014, by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2015 through December 31, 2019. Our examination was performed as part of the multi-state coordinated examination of The Hanover Insurance Group

(THG) of regulated entities wherein New Hampshire is the lead state. To the fullest extent, the efforts, resources, project material, and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers, LLP (PwC). Certain auditor work papers of the 2019 audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated under the laws of Delaware on June 20, 2006, as a wholly-owned subsidiary of NOVA Casualty Company (NCC). NCC is a wholly-owned subsidiary of The Hanover Insurance Company (HIC).

Capitalization

AIX has 5,000,000 shares of \$1 par value common stock authorized, issued and outstanding. All outstanding common shares of the Company are owned by NCC. As of December 31, 2019, the Company reported gross paid in and contributed surplus of \$45,668,776.

Dividends

The Company's Board of Directors (Board) approved the following dividends during the exam period:

- On December 22, 2015 paid an ordinary dividend totaling \$3,000,000.
- On December 29, 2016 paid an ordinary dividend totaling \$2,000,000.
- On June 5, 2017 paid an ordinary dividend totaling \$2,100,000.

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and affairs of the Company must be managed by or under the direction of its Board. The Board shall not have less than four members and nor more than eighteen Directors. All Directors are elected annually by the Stockholders for a term of one year. Directors duly elected and serving as of December 31, 2019, are as follows:

<u>Name</u>	<u>Title</u>
John C. Roche	President and Chief Executive Officer
Warren E. Barnes	SVP, Chief Accounting Officer
J. Kendall Huber	EVP, General Counsel
Bryan J. Salvatore	EVP, President Specialty
Mark L. Berthiaume	EVP, CIO and Chief Technology Innovation Officer
Denise M. Lowsley	EVP, Chief Human Resources Officer
Ann K. Tripp	EVP, Chief Investment Officer and Treasurer
Jeffery M. Farber	EVP and Chief Financial Officer
Mark J. Welzenbach	EVP, Chief Claims Officer

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, Secretary, and Treasurer. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
John C. Roche	President and Chief Executive Officer
Ann K. Tripp	EVP, Chief Investment Officer and Treasurer
Charles F. Cronin	Vice President, Group Counsel and Secretary

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* § 4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system known as THG as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. As noted above, the Company is a wholly-owned subsidiary of NCC, which is a wholly-owned subsidiary of HIC, whose ultimate parent is THG.

An abbreviated organizational chart of the THG holding company system as of December 31, 2019, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

	<u>NAIC Co.Code</u>	<u>State</u>
The Hanover Insurance Group, Inc.		DE
Educators Insurance Agency, Inc.		MA
Campania Holding Company, Inc.		VA
VeraVest Invesments, Inc.		MA
Opus Investment Management, Inc.		MA
Citizens Insurance Company of Illinois	10714	IL
CitySquare II Development Co. LLC		MA
The Hanover Insurance Company	22292	NH
Allmerica Financial Alliance Insurance Company	10212	NH
Allmerica Financial Benefit Insurance Company	41840	MI
AIX, Inc.		DE
AIX Insurance Services of California, Inc.		CA
Allmerica Plus Insurance Agency, Inc.		MA
Campmed Casualty & Indemnity Company, Inc.	12260	NH
Citizens Insurance Company of America	31534	MI
Citizens Insurance Company of Ohio	10176	OH
Citizens Insurance Company of the Midwest	10395	IN
CitySquare II Investment Co. LLC.		MA
Front Street Financing LLC		MA
The Hanover American Insurance Company	36064	NH
The Hanover Atlantic Insurance Co. Ltd.		Bermuda
The Hanover Casualty Company	41602	TX
The Hanover National Insurance Company	13147	NH
The Hanover New Jersey Insurance Company	11705	NH
Professionals Direct, Inc.		MI
Professionals Direct Insurance Services, Inc.		MI
Massachusetts Bay Insurance Company	22306	NH
NOVA Casualty Company	42552	NY
AIX Specialty Insurance Company	12833	DE
AIXHI LLC		MA
NAG Merger LLC		MA
Verlan Fire Insurance Company	10815	NH
440 Lincoln Street Holding Company LLC		MA
Verlan Holdings Inc.		MD
Hanover Specialty Insurance Brokers, Inc.		VA

Agreements with Affiliates

Consolidated Service Agreement

Effective January 1, 2010, THG entered into a Consolidated Service Agreement with its affiliates including AIX. Under the terms of the Agreement, THG provides AIX with management, space, and other services including accounting, electronic data processing, human resources, legal and other staff functions. The Department approved the agreement by letter dated July 14, 2010.

Consolidated Tax Agreements

Effective November 18, 2008, AIX entered into a Consolidated Income Tax Agreement with THG and affiliates following the acquisition of control of the Company by THG.

Investment Advisory Agreement

AIX entered an Investment Advisory Agreement on February 1, 2009 with Opus Investment Management, Inc., a member of THG. Under the terms of the agreement expenses and fees paid by AIX were established on both a direct cost basis and on an allocation basis.

Quota Share Reinsurance Agreement

The Company is a party to a quota share reinsurance agreement effective January 1, 2009 with HIC. Under the terms of the Agreement AIX cedes one hundred percent of all business written to HIC. The Department approved the agreement by letter dated December 5, 2008.

Guarantee Agreement

Effective November 28, 2008, HIC entered into a Guaranty Agreement with AIX whereby HIC ensures the complete performance of all obligations of AIX on or after November 28, 2008 to the extent that AIX is unable to do so in the normal course of business. The Department approved the agreement by letter dated December 5, 2008.

TERRITORY AND PLAN OF OPERATION

Territory

AIX is part of a national group of multi-line carrier's that underwrite commercial and personal property coverages primarily through independent agents. As of December 31, 2019, the Company was licensed to write in the State of Delaware and is eligible to do business in 49 other states and the District of Columbia as an excess surplus lines carrier.

AIX primarily serves as a writer of niche specialty programs, specifically property and liability coverage risks generally not insured in the admitted market.

Program Managers oversee classes of business with supporting agents within the programs. AIX benefits from cross over business where affiliated THG insurers and agents use the Company's paper to provide policies to clients on risks that fit AIX's risk profile.

On the filed Annual Statement for 2019, the Company reported the following distribution of Direct Premiums Written:

Fire lines	\$12,488,728	7.69%
Allied lines	7,605,031	4.68%
Commercial multiple peril	23,067,702	14.20%
Inland marine	11,613,721	7.15%
Medical professional liability - occurrence	2,866,781	1.76%
Medical professional liability - claims made	12,795,091	7.87%
Other liability - occurrence	65,788,936	40.49%
Other liability - claims made	17,534,972	10.79%
Product liability - occurrence	6,878,357	4.23%
All other lines	1,844,208	1.14%
	<u>\$162,483,527</u>	<u>100.00%</u>

REINSURANCE

The Company reported the following distribution of premiums written for 2019:

	<u>Premiums</u>
Direct	\$ 162,483,527
Reinsurance assumed from affiliates	-
Reinsurance assumed from non-affiliates	-
Total gross (direct and assumed)	\$ 162,483,527
Reinsurance ceded to affiliates	\$ 162,483,527
Reinsurance ceded to non-affiliates	\$ -
Total ceded	\$ 162,483,527
Net premiums written	\$ -

Effective January 1, 2009, AIX entered into a 100% Quota Share Reinsurance Agreement with its parent Company, HIC. All business is ceded to HIC. AIX does not assume any reinsurance.

FINANCIAL STATEMENTS

The financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2019.
- Statement of Income for the year ended December 31, 2019.
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2014 to December 31, 2019.

Statement of Assets and Liabilities
As of December 31, 2019

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 50,282,735		\$ 50,282,735	
Common stocks				
Cash	2,544,126		2,544,126	
Short-term Investments				
Other invested assets				
Receivables for securities				
Subtotals, cash and invested assets	<u>\$ 52,826,861</u>	<u>\$ -</u>	<u>\$ 52,826,861</u>	
Investment income due and accrued	377,943		377,943	
Uncollected premiums and agents' balances in the course of collection				
Deferred Premiums, Agents' Balance booked but not due				
Accrued retrospective premiums				
Amounts recoverable from reinsurers	526,552		526,552	
Funds held by or deposited with reinsured companies				
Current federal and foreign income tax recoverable and interest thereon	649		649	
Net deferred tax asset	295,206		295,206	
Electronic data processing equipment and software	69,900	69,900	-	
Receivable from parent, subsidiaries and affiliates				
Net deposit assets				
Aggregate write-ins for other than invested assets	1,555,434	1,555,434	-	
Totals	<u><u>\$ 55,652,545</u></u>	<u><u>\$ 1,625,334</u></u>	<u><u>\$ 54,027,211</u></u>	

AIX Specialty Insurance Company

		<u>Notes</u>
Losses	\$ -	1
Reinsurance payable on paid losses and LAE		
Loss adjustment expenses	-	1
Commissions payable, contingent commissions		
Other expenses		
Taxes, licenses and fees		
Current federal and foreign income taxes		
Unearned premiums		
Ceded reinsurance premiums payable		
Funds held by company under reinsurance treaties		
Amounts withheld or retained by company for account of others		
Remittances and items not allocated		
Provisions for reinsurance		
Payable to parent, subsidiaries, and affiliates	5,434	
Net deposit liability		
Payable for Securities	400,000	
Deferred ceding commission		
Escheat payable		
Total liabilities	<u>\$ 405,434</u>	
Retroactive reinsurance gain		
Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	45,668,776	
Unassigned funds (surplus)	<u>2,953,001</u>	
Surplus as regards policyholders	<u>\$ 53,621,777</u>	
Totals	<u><u>\$ 54,027,211</u></u>	

Statement of Income
For the Year Ended December 31, 2019

		<u>Notes</u>
Premiums earned	\$ -	
Losses incurred		
Loss adjustment expenses incurred	-	
Other underwriting expenses incurred		
Total underwriting deductions	<u>\$ -</u>	
Net underwriting gain (loss)	<u>\$ -</u>	
Net investment income earned	\$ 1,671,453	
Net realized capital gains or (losses)	(35,753)	
Net investment gain (loss)	<u>\$ 1,635,700</u>	
Net gain (loss) from agents' or premiums balances charged off	\$ -	
Miscellaneous and foreign exchange fund	-	
Net interest on funds held	-	
Retroactive reinsurance losses	-	
Total other income	<u>\$ -</u>	
Net income after dividends to policyholders	\$ 1,635,700	
Dividends to policyholders	-	
Net income, after dividends to policyholders	\$ 1,635,700	
Federal and foreign income taxes incurred	336,668	
Net income	<u>\$ 1,299,032</u>	

Reconciliation of Capital and Surplus
 For the Period from the Prior Examination
 As of December 31, 2014 to December 31, 2019

	<u>Common Stock</u>	<u>Gross Paid in and Contributed</u>	<u>Unassigned Funds</u>	<u>Total</u>
Balance as of December 31, 2014	\$ 5,000,000	\$ 40,568,776	\$ 4,320,763	\$ 49,889,539
Net Change in Capital and Surplus 2015			808,200 1	808,200
Dividend Paid 2015			(3,000,000) 2	(3,000,000)
Net Change in Capital and Surplus 2016			1,998,545 1	1,998,545
Dividend Paid 2016			(2,000,000) 2	(2,000,000)
Net Change in Capital and Surplus 2017		5,100,000	(4,625,865) 1,3	474,135
Dividend Paid 2017			(2,100,000) 2	(2,100,000)
Net Change in Capital and Surplus 2018			4,684,155 1	4,684,155
Net Change in Capital and Surplus 2019			2,867,203 1	2,867,203
Balance as of December 31, 2019	<u>\$ 5,000,000</u>	<u>\$ 45,668,776</u>	<u>\$ 2,953,001</u>	<u>\$ 53,621,777</u>

1 - Defined as net income, change in deferred income tax, and change in non-admitted

2 - Dividends paid

3 - Contributed capital from parent

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses	\$ 0.00
Loss Adjustment Expenses	\$ 0.00

The examination liability for the aforementioned captioned items of \$0.00 and \$0.00 are the same as reported by the Company as of December 31, 2019. The balances were reported as \$0.00 as a result of the 100% quota share agreement with its parent company.

The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle, No. 55 (SSAP No. 55).

SUBSEQUENT EVENTS

No subsequent events to report after December 31, 2019.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc. and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

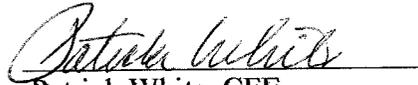
Patrick White

Patrick White, CFE
Examiner In-Charge
State of Delaware

Anthony Cardone

Anthony Cardone, CFE
Supervising Examiner
State of Delaware

I, Patrick White, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.026.


Patrick White, CFE